



ALAN LeBOVIDGE
CHAIRMAN

The Commonwealth of Massachusetts
Springfield Finance Control Board
436 Dwight Street
Springfield, MA 01103

January 23, 2007

Leslie A. Kirwan, Secretary
Executive Office for Administration and Finance
State House, Room 373
Boston, MA 02133

The Honorable Therese Murray, Chair
Senate Committee on Ways and Means
Commonwealth of Massachusetts
State House, Room 212
Boston, MA 02133

The Honorable Robert A. DeLeo, Chair
House Committee on Ways and Means
Commonwealth of Massachusetts
State House, Room 243
Boston, MA 02133

Dear Secretary Kirwan, Chairperson Murray and Chairperson DeLeo:

This report is being submitted, pursuant to sections 2 and 9(a) of Chapter 169 of the Acts of 2004 (the "Act"), to update the legislature on the activities and expenses of the Springfield Finance Control Board. The report covers the period from July 1, 2006 through December 31, 2006 and provides an update for the last two quarters.

During the last six months, the Board took the following steps to restore the City's financial health:

Collective Bargaining

The Control Board successfully concluded contract negotiations with a number of unions, including the City's largest. This includes schoolteachers (2,672 employees), police patrol officers (365 employees), firefighters (231 employees), tradesmen (20 employees) and civil engineers (13 employees). At present, 98.4% of the employees in Springfield have settled labor contracts. All but one of these agreements are long-term in nature, expiring in 2012. This will provide long-term labor stability and the opportunity to develop positive labor-management relationships after the difficult period that began with large-scale layoffs and the unilateral wage freeze imposed by the prior mayoral administration.

These labor contracts include a number of provisions that will assist the City in managing its finances and operations in years to come, including the first performance-compensation contract for schoolteachers, drug and alcohol policies in public safety departments, combined civilian dispatch (which will return police officers and firefighters to patrol and fire suppression duties), a pilot program for video cameras in police vehicles, cross training for tradesmen, performance evaluations for school administrators, the use of computerized technology in building trades and the use of GPS technology by building inspectors.

Other Personnel Issues

The Control Board has been working with the City to develop uniform, best practice, personnel policies for all City departments. Departments currently operate under personnel policies that apply to individual departments, which can lead to significant operational difficulty and inequitable treatment of employees. It is anticipated that these policies will be finalized in the coming months; after that time, the Control Board will assist the City in its review of existing ordinances to replace contradictory provisions and empower the Personnel Director to proactively manage human resources and human resource policies.

The Control Board is finalizing and will soon implement a performance management system for departmental managers in the coming months. This is intended to help improve the efficiency and effectiveness of departmental operations, saving money while improving the quality of service provided to the public.

Payroll System

The Control Board is also working with the City to address implementation issues regarding the City's centralized payroll system. This system replaced a number of stand-alone payroll systems developed by individual departments that provided the City with no meaningful analytical capabilities. The City and Control Board continue to refine and improve the new system, and are in the process of expanding it to other departments – such as the Police Department – that continue to operate stand-alone systems with exceptionally limited functionality and poor stability.

Centralized Financial Management System

The Control Board and the City continue to implement the City's first centralized computer system. This system will significantly improve operational efficiency and will, for the first time, allow management to understand and analyze the City's expenditures. The system is planned for initial roll-out in July 2007, with significant additional work required to implement other critical sub-systems thereafter. The Control Board is also in the process of reviewing other related financial computer systems that can provide similar financial and operational benefits to the City.

Financial Policies

The Control Board has developed a series of comprehensive financial policies for the City that is will consider adopting in February. These policies have been reviewed by both the City and the two main bond rating agencies. The latter opined quite favorably regarding the policies with Standard & Poor's stating, "Springfield's financial management practices are considered strong... due to the policies and practices the SFCB is expected to adopt." Moody's Investors Service opined that adoption and adherence to these policies could result in a bond rating upgrade for the City.

Capital Plan

The Control Board has approved three bond issuances for the City of Springfield. These bonds will help address a portion of the City's \$325 million in capital needs, financing projects that will save money, improve operations and public services and enhance quality of life for residents in Springfield.

The first bond issuance will finance \$15.5 million in energy efficiency improvements in School Department and City facilities. Projections indicate that this will save the City an average of \$1.3 million dollars per year for twenty years, with a compensating debt service cost of \$1.1 million. The Control Board has established a special stabilization reserve funds to help finance the use of the most efficient bond structure possible for this debt. This will save \$1.1 million in interest costs over the life of the bonds.

The second bond order will finance \$38.5 million in capital projects, including construction of a new vocational technical high school, road and sidewalk improvements, demolition of derelict buildings and the planning to build a combined civilian dispatch center and to consolidate two fire stations. The Control Board has developed a unique bond structure for this issuance that eliminates two major debt spikes – one of which would require an increase of 36% in the City's debt service budget and the other which would require a 42% increase – as well as eliminating two smaller periods of inclining debt service. This structure, known as a "hybrid, adjusted level debt service structure" is also significantly more efficient than the structure typically used by the City. This is projected to save \$8.52 million for the City compared to the structure typically used by the City, while providing a more certain debt structure that does not include significant spikes which would, in all likelihood, result in layoffs and potential financial crises in the future.

The third bond order authorizes the refunding of approximately \$70 million in existing bonds. This is projected to save the City \$1.1 million and the Commonwealth \$2.3 million. There is no real economic benefit for the City to refund school construction bonds because it receives only 10% of the savings. The Control Board has included school construction bonds in the refunding because of the savings they produce for the Commonwealth. This is the second time the Control Board has done this, the first being the City's 2005 refunding which saved the Commonwealth \$5 million.

Trash Fee

The Control Board adopted the Fiscal Year 2007 as a balanced budget, the first balanced budget for the City in a number of years. This budget assumed the implementation of a \$90 trash fee to provide recurring revenue to pay a portion of the cost of collecting and disposing of solid waste. This fee was challenged in court and the judge approved a temporary restraining order to prevent its collection. The FCB has adopted a modified trash fee for Fiscal Year 2008 to address concerns raised in the lawsuit; arguments in this case are scheduled for February 5, 2007. In the event that City is unable to collect the trash fee for Fiscal Year 2007, the Control Board has authorized a \$2.65 million loan from the Trust Fund to ensure the City can continue trash collection after March 2007, and that doing so does not force the City into deficit for the fiscal year.

Property Taking and Disposition

The Control Board and the City continue their efforts to increase voluntary payment of property taxes. Where necessary, however, the City has taken properties for failure to pay taxes, after following a robust process of public notification, letter writing and telephone calls with tax debtors. The City will soon begin to dispose of properties taken for non-payment of taxes; the Control Board has established a web-based disposition process to ensure the City does not sell a property it needs, does not allow a use that is immiscible with the neighborhood or the needs of surrounding property owners and that the expertise of all city departments is utilized when making future sale and re-use decisions. Development of this process followed two instances in which the City failed to internally coordinate the disposition of properties.

Cash Management

The Control Board has continued its analysis of the City's cash investments. As a result of this analysis, the City has diversified cash investments from one vendor to three. The single vendor previously used by the City has made investments that are not legal for municipalities, and the return received generally trailed prevailing interest rates. The Control Board and City's continued efforts have increased interest earnings by more than \$2 million per year since 2004.

Divestiture of Certain Departments

The City has ended its responsibility for managing and financing the Hampden County Employment and Training Consortium (HCETC), a municipal agency that provided similar services to other governmental and non-profit agencies in Springfield. Employees were transferred to the agency that has assumed responsibility for this function; the City will provide financial assistance to the agency that has assumed responsibility for HCETC, but the added economy of scale will allow the City to avoid overhead, fringe benefit and administrative costs associated with this operation. The City and Control Board are undertaking the same analysis with regard to the Massachusetts Career Development Institute (MCDI), which also provides services redundant to those provided by other governments and non-profit agencies. Divestiture of MCDI is anticipated to save the City \$500,000 each year.

Departmental Reorganizations

The City has requested the assistance of the Finance Control Board in reorganizing the Purchasing and Treasurer/Collector Departments. The Board is in the process of analyzing these requests and may assist the City if it determines these reorganizations are appropriate.

Upcoming Studies

The Control Board is preparing to issue competitive procurements for additional management and operational studies of City departments, including Personnel, Retirement and Veterans' Services.

Looking Forward

As discussed in the last quarterly report, the Control Board and the City have improved a number of the governmental operations, but many these reforms are in their nascent stages. The majority of improvements have not yet been fully implemented, and many management reforms are still so new as to require ongoing attention from a body committed to reform and operational improvement. The City's financial problems are firmly rooted in a structural inability to manage its own operations. Historically, key financial and operating departments have not been staffed by capable managers, or have had staffs too small to appropriately exercise their responsibilities. The City and Control Board have made significant changes to address this, but the culture of the

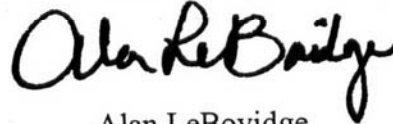
City must change to ensure that these changes are not temporary, "start and stop" projects the end when the Control Board expires.

Control Board Expenditures

Details of the expenditures of the Board for the first and second quarters of Fiscal Year 2007 are shown in the table below. This table reflects expenses processed through the Commonwealth's account system as of December 31, 2006.

Personnel Services	\$ 230,467.01
Equipment & Administrative	\$ 13,010.18
Contracted Services	\$ 587,564.16
Total	\$ 831,041.35

Sincerely,



Alan LeBovidge
Chairman
Springfield Finance Control Board